



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of Application of
CALIFORNIA-AMERICAN WATER
SERVICE COMPANY (U 210 W) for an
order authorizing it to increase its rates for
water service in its Los Angeles District to
increase revenues by \$2,020,466 or 10.88% in
the year 2007; \$634,659 or 3.08% in the year
2008; and \$666,422 or 3.14% in the year 2009

A.06-01-005
(Filed January 9, 2006)

**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES
TO SUPPLEMENT OF CALIFORNIA-AMERICAN WATER'S
MOTION TO REOPEN THE RECORD**

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March 7, 2007

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**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES
TO SUPPLEMENT OF CALIFORNIA-AMERICAN WATER'S
MOTION TO REOPEN THE RECORD**

I. INTRODUCTION

Pursuant to Rule 11.1(e) of the Commission's Rules of Practice and Procedure (Rules), and the Administrative Law Judge's Ruling Shortening Time To Respond To Cal-Am's February 27, 2007 Supplemental Filing,¹ the Division of Ratepayer Advocates (DRA) submits this Response to the "Supplement of California-American Water's Motion to Reopen the Record to Amend the Settlement Agreement as to Certain Issues Between the Division of Ratepayer Advocates and California-American Water Company on the Revenue Requirements" (Supplemental Filing).²

¹ Administrative Law Judge's Ruling Shortening Time To Respond To Cal-Am's February 27, 2007 Supplemental Filing (February 28, 2007) (shortening the time to respond to March 9, 2007).

² Supplement of California-American Water's Motion to Reopen the Record to Amend the Settlement Agreement as to Certain Issues Between the Division of Ratepayer Advocates and California-American Water Company on the Revenue Requirement (February 27, 2007) (CAW Supplement).

As discussed below, DRA recommends that California-American Water (CAW) submit a corrected and complete set of amended tables for the proposed settlement between DRA and CAW on certain revenue requirement issues. DRA also emphasizes that CAW no longer proposes a Full Cost Balancing Account in this proceeding.

II. BACKGROUND

In Phase 1 of this proceeding – which addresses the revenue requirement for CAW’s Los Angeles district – CAW and DRA reached a partial settlement and filed a motion to adopt the settlement on June 23, 2006 (6/23/06 Proposed Settlement).³ CAW and DRA filed a correction to the proposed settlement agreement on August 16, 2006 (8/16/06 Amended Tables).⁴ On February 15, 2006, CAW submitted a motion to reopen the record and provided settlement tables, reviewed by DRA, that were amended to reflect the correct water supply mix agreed-to by the parties (2/15/07 Amended Tables).⁵ Subsequently, the ALJ directed CAW to file additional information in the form of: (1) “a comparison table of dollar changes contained in [CAW’s 2/15/07] motion and accompanying tables that reflect the percentage change in customer bills in each subsystem between” the 2/15/07 Amended Tables and the 8/16/06 Amended Tables, and; (2) a discussion of “the procedural process that would be followed if these errors in supply mix were discovered after the Commission rendered a final decision and how these procedural processes would change if the Commission approves Cal-Am’s Full

³ Motion of California-American Water and the Division of Ratepayer Advocates for Adoption of Settlement Agreement as to Certain Issues on the Revenue Requirements; Settlement Agreement Attached (June 23, 2006). The proposed settlement does not address two issues in Phase 1: (1) CAW’s requested Infrastructure System Replacement Surcharge, and; (2) the appropriate return on equity (and thus the appropriate rate of return).

⁴ Correction of California-American Water and the Division of Ratepayer Advocates of Certain Comparison Exhibits to the Settlement Agreement as to Certain Issues on the Revenue Requirements (August 16, 2006).

⁵ Motion to Reopen the Record to Amend the Settlement Agreement as to Certain Issues Between the Division of Ratepayer Advocates and California-American Water Company on the Revenue Requirements (February 15, 2007) (2/15/07 Motion).

Cost Balancing Account proposal.”⁶ CAW filed the requested Supplemental Filing on February 27, 2007.

III. DISCUSSION

A. \$500,000 Increase In Operations & Maintenance Expenses and Allocation to San Marino and Duarte Customers

DRA has reviewed Exhibit A to CAW’s Supplemental Filing, a comparison table and workpapers showing the dollar changes resulting from the changes in purchased water, and Exhibit B to CAW’s Supplemental Filing, tables showing the percentage change in customer bills in each subsystem resulting from the changes in purchased water. While DRA concurs with the calculations in Exhibit A, DRA questions the allocation of the additional cost as reflected in Exhibit B.

In Exhibit B, CAW appears to allocate all of the additional cost resulting from the change in water supply mix to the metered customers. Other customer classes do not appear to bear any of the additional cost. DRA recommends that CAW file amended tables allocating the additional cost across all customer classes, or provide an explanation as to why only metered service classes should be the additional cost.

B. Plant-In-Service Errors in 2/15/07 Amended Tables

In the course of reviewing CAW’s recent filings, DRA discovered an error in the plant in service table submitted in the 2/15/07 Amended Tables. On page 14 of Exhibit B, the Gross Additions for 2008 Plant in Service (if the Commission rejects an ISRS) indicates that the revised dollar amount for both DRA staff and the utility (as opposed to the amount originally proposed by each party) is \$2,861.5K.⁷ This dollar amount should not have changed from the \$2,913.9K agreed-to by the parties and reflected in the 6/23/06 Proposed Settlement (Attachment B, page 14). According to CAW, the

⁶ Administrative Law Judge’s Ruling Directing Supplemental Motion To February 15, 2007 Motion To Reopen The Record To Amend The Settlement Agreement On The Revenue Requirement (February 23, 2007) (2/23/07 ALJ Ruling) at 1-2.

⁷ Exhibits A and B of the 2/15/07 Amended Tables reflect corrected settlement tables in the event that the Commission approves an ISRS (Exhibit A) or rejects an ISRS (Exhibit B).

inadvertent change to plant in service was caused by a formulaic error caused by a link to the wrong spreadsheet cell.

While DRA reviewed and approved the 2/15/07 Amended Tables as indicated in the accompanying motion,⁸ DRA's review focused on the water mix correction, and the items that should change as a result of that correction such as purchased water in O&M and rents in A&G. Unfortunately, DRA did not identify the plant in service error before the 2/15/07 Amended Tables were filed. DRA has requested that CAW correct this error in an additional filing.

C. Pages Missing From 2/15/07 Amended Tables

DRA's review of the 2/15/07 Amended Tables revealed that two pages that should have been amended are missing:

(A) a correction to Taxes Based on Income for 2007 (Proposed Rates), appearing as Page 12 of Attachment D in the 6/23/06 Proposed Settlement, and;

(B) a correction to Depreciation Reserve & Expense for 2008, appearing as page 16 of Attachment D in the 6/23/06 Proposed Settlement.

DRA has requested that CAW correct this oversight when it submits corrections to plant in service as discussed in Section B, above.

D. Impact Of A Supply Mix Error Under The Current Balancing Account System

In its 2/27/07 Supplement, CAW asserts as follows:

Under the current balancing account system, if an error in the supply mix for purchased water were discovered after the Commission rendered a final decision, the error could be remedied by filing a Petition for Modification of the final decision. Correction of the error would be necessary because changes in the supply mix for purchased water are not otherwise tracked in the balancing account.⁹

⁸ 2/15/07 Motion at 2.

⁹ 2/27/07 Supplement at 3.

In view of how CAW's current balancing accounts function, CAW's assertion quoted above is incorrect that this type of error would be corrected through a Petition for Modification. In fact, the current balancing account system does not attempt to capture changes in water supply mix, but only changes in the price of water supply. Thus, to the extent that a Commission decision adopted an erroneous water supply mix, the company would incur either the additional cost or benefit that would result from the error under the current balancing account system. However, DRA does agree with CAW's conclusions regarding the impact of a supply mix error under both a Modified Cost Balancing Account system and a Full Cost Balancing Account system.¹⁰

**E. CAW No Longer Proposes A Full Cost Balancing Account
In This Proceeding**

DRA agrees with CAW's statement that the company no longer proposes a Full Cost Balancing Account in this proceeding.¹¹ DRA and CAW have engaged in lengthy settlement negotiations to reach the proposed rate design settlement, including a Modified Cost Balancing Account with characteristics that differ from both current balancing accounts and CAW's originally proposed Full Cost Balancing Account. DRA urges the Commission to consider the proposed rate design settlement as the sum of many parts that have been carefully chosen to balance the interests of both ratepayers and the company.

¹⁰ *Id.*

¹¹ *Id.*

IV. CONCLUSION

DRA recommends that CAW resubmit amended tables for the parties' proposed settlement on certain revenue requirement issues in the manner discussed above.

Respectfully submitted,

/s/ NATALIE D. WALES

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March 7, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**RESPONSE Of The DIVISION Of Ratepayer Advocates TO SUPPLEMENT OF CALIFORNIA-AMERICAN WATER’S MOTION TO REOPEN THE RECORD**” in **A.06-01-005** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses, if any.

Executed on **March 7, 2007** at San Francisco, California.

/s/ HALINA MARCINKOWSKI

Halina Marcinkowski

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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